

Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Khâi-Ma Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Khâi-Ma Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting

estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Khâi-Ma Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 30 June 2016 in the financial statements of Khâi-Ma Local Municipality at, and for the year ended 30 June 2015.

Financial sustainability

9. The statement of financial position indicates that the Khâi-Ma Local Municipality current liabilities exceeded its current assets by R17 400 905. These conditions, along with other matters as set forth in the note 54, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Irregular expenditure

10. As disclosed in note 40.3 to the financial statements, the municipality incurred irregular expenditure of R833 336 (2015: R0) during the year under review mainly due to non-compliance with supply chain management requirements. The total amount of irregular expenditure recorded in the annual financial statements at 30 June 2016 amount to R833 336 (2015: R11 072 467). In addition, the full extent of irregular expenditure is still in the process of being determined.

Material losses

11. As disclosed in note 16 to the financial statements, a significant provision was made for the impairment of receivables from exchange transactions of R36 560 311, which constitutes 96% of the total receivables from exchange transactions of R38 005 348.
12. As disclosed in note 17 to the financial statements, a significant provision was made for the impairment of receivables from non-exchange transactions of R3 021 755, which

constitutes 85% of the total receivables from the non-exchange transactions balance of R3 539 622.

13. As disclosed in note 41.8 to the financial statements, material losses to the amount of R2 092 240 were incurred as a result of electricity and water distribution losses.

Additional matters

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

15. The supplementary information set out on pages XX to XXX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

16. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

18. The annual performance report of the municipality was not presented for auditing and, consequently, my findings below are limited to the procedures performed in respect of the following selected objectives as contained in the strategic planning and performance management documents:
 - Objective 1: Basic service delivery
19. I assessed the information to determine whether the performance indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information (FMPPI).

20. The material findings in respect of the selected objectives are as follows:

Basic service delivery

Usefulness of performance information

- 20. Performance targets were not specific in clearly identifying the nature and required level of performance and were not measurable and the period or deadline for delivery of targets was not specified, as required by the FMPPPI.
- 21. Performance indicators/measures were not clearly defined so that data could be collected consistently and was easy to understand and use. Performance indicators/measures were also not verifiable.
- 22. The measurability of planned targets and indicators could not be assessed due to a lack of technical indicator descriptions and proper systems and processes and formal standard operating procedures or documented system descriptions.

Compliance with legislation

- 21. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

- 22. The municipality did not establish a performance management system as required by section 38(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) or FMPPPI 8.
- 23. The key performance indicators set by the municipality did not include indicators on percentage of households with access to basic level of water and sanitation, and electricity and solid waste removal were not set by the municipality as required by section 43(2) of the MSA and the FMPPPI 10(a).
- 24. Performance targets were not set for each of the key performance indicators for the financial year as required by section 41(1)(b) of the MSA and the FMPPPI 12(1) and 12(2)(e).

Financial statements, performance and annual reports

- 25. The annual performance report was not prepared for the financial period under review, as required by section 46 of the MSA.

26. The oversight report adopted by the council on the 2014-15 annual report was not made public, as required by section 129(3) of the MFMA.

Procurement and contract management

27. The preference point system was not applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and supply chain management regulation 28(1)(a).

Human resource management and compensation

28. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff in contravention of section 67(d) of the MSA.

Expenditure management

29. Money owed by the municipality was not always paid within 30 days as required by section 65(2) of the MFMA.
30. Reasonable steps were not taken to prevent unauthorised as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Consequence management

31. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

Internal control

32. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

33. The mayor did not develop and submit for adoption by the council, a performance management system to report on service delivery. The leadership did not hold staff of the municipality accountable due to the performance system not being implemented.
34. During the financial year under review, the leadership did not take timeous and adequate action to address weaknesses in the finance and supply chain management directorates, which resulted in non-compliance with applicable legislation and gave rise to unauthorised, and fruitless and wasteful expenditure.
35. The leadership did not ensure adherence to SCM policy at the municipality, which resulted in processes not preventing material non-compliance.

Financial and performance management

36. During the year under review, the accounting officer did not regularly review and monitor management's compliance with all laws and regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted that could have been prevented.
37. The municipality did not have a delegated employee to review and monitor compliance with applicable laws and regulations. There are deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations and performance information.
38. The municipality did not implement systems to prepare an annual performance report for the current financial year.
39. Records management and maintenance disciplines should be refined and included in the daily key controls and reviewed and monitored by the appropriate level of management.

Governance

40. Management did not review or monitor risks identified. In addition, no risk assessment was performed relating to the IT environment.
41. The internal audit unit did not function for the entire financial year. Internal audit reports were not available; consequently, management could not implement or address findings raised by the internal audit unit.
42. Prior years' audit findings were not addressed by management, as the council did not establish an audit committee as required by the MFMA.

Auditor General.

Kimberley

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

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